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THE FORBES ANNUAL MONEY GUIDE

JUNE 25, 1990 THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

STAYING ALIVE

IN THE 1990s

THE PERILS OF ART INVESTING

ARE TECHNOLOGY STOCKS A BUY NOW?

SELLING SHORT ISN'T JUST FOR THE PROS

THE SMART WAY TO INVEST IN THE THIRD WORLD

HOW COMPUTERS CAN MAKE YOU A BETTER INVESTOR

WHAT SHOULD YOU DO WITH YOUR IRA?

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THE FORBES MONEY GUIDE

JUNE 25, 1990
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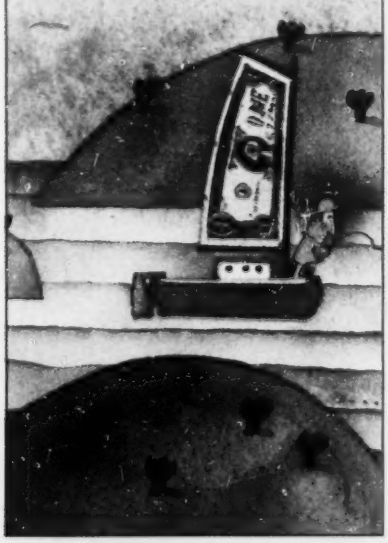

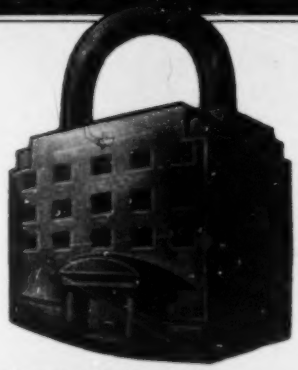

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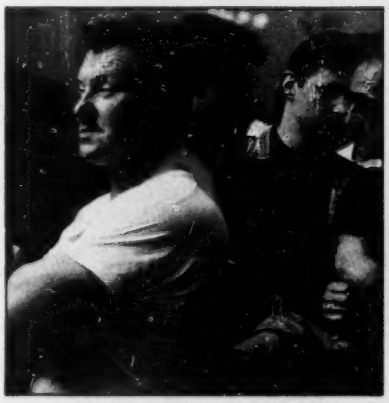

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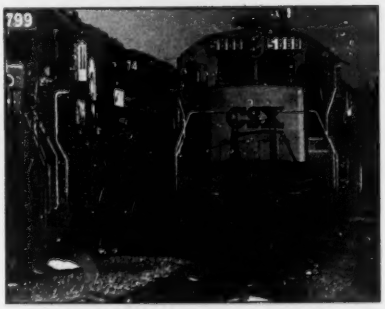

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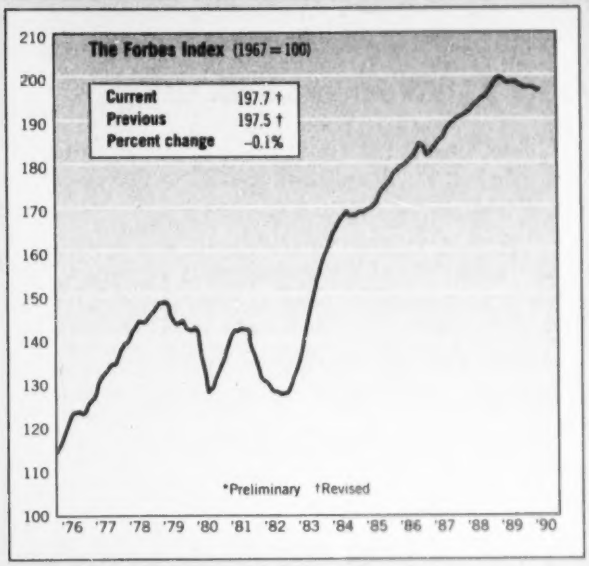
The Forbes Index



The government reduced its estimate of first-quarter growth in the economy from 2.1% (annualized) to 1.3%. The revised GNP figure is more in line with the sluggish performance of the Forbes Index. The preliminary April figure shows the Index at the same level it was at in December 1989. The manufacturing sector continued to have its problems, as manufacturers' new orders slipped 4.3% from March to April while inventories crept up 0.4%. Personal income rose 0.7% over the revised March figure and now stands at $2.78 trillion.

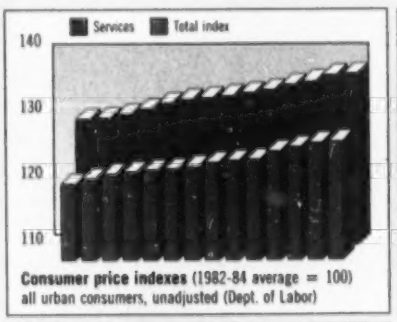
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–5.8%
Index of leading indicators April vs. March	Dept of Commerce	–0.2%
Trade balance last 12 months ending March 1990	Dept of Commerce	–$95 bil
Producer price index April vs. 1989[2]	Dept of Labor	3.5%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	1.3%
NBER Experimental Recession Index April[3]	Natl Bureau of Economic Research	6.0%

[1]U.S.-based manufacturers, excludes imports, as of 5/20/90. [2]Finished goods. [3]April 1990.

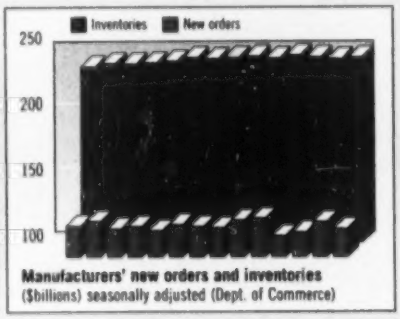
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

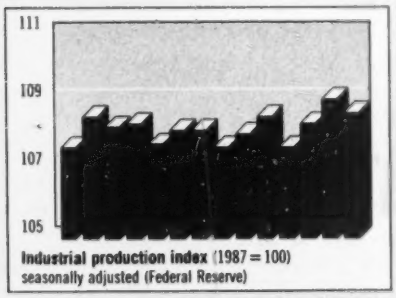
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



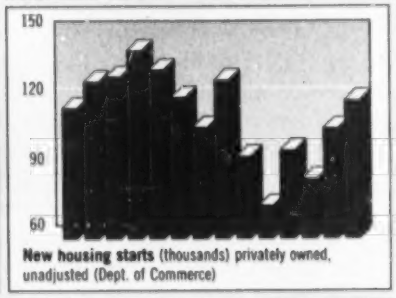
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



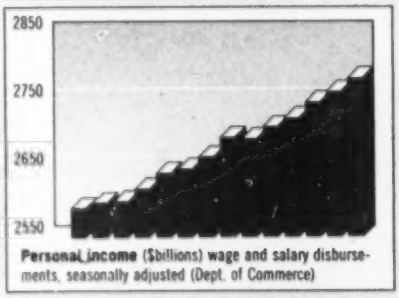
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)

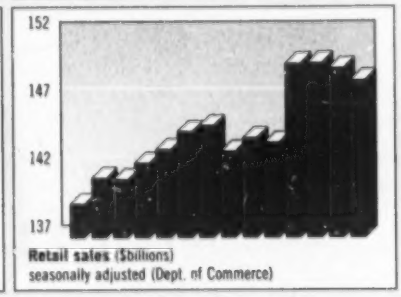


New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

brokerage firms have booklets explaining the mathematics of foreign currency options.

Foreign currency bank accounts. Last December the Federal Reserve Board decided to allow U.S. citizens to open accounts denominated in foreign currencies at U.S. banks. Many banks have always offered offshore currency accounts for high-balance customers. But foreign currency accounts in the U.S. are so new that it's hard to find a bank that wants to do it at a competitive price for a small sum (say, $10,000). Both BankAmerica and Security Pacific Bank, for example, do it only for corporate customers.

Of the four methods, which is best? For someone with more than $100,000, the futures transaction is likely to be the most efficient. For investors of smaller means, an option or fund is the only reasonable choice. Foreign currency bank accounts are still in their infancy, so it's still hard for the comparison shopper to get a good deal on one. ■

There are any number of great reasons to take a foreign assignment. Tax considerations are not among them.

Maybe you'd better stay home

By John Marcom Jr.

LET'S SAY you're married, have two children, live in a Miami suburb and enjoy substantial income from an investment portfolio. Your boss offers you an attractive job: running the company's European marketing operations, from London. Visions of 1992 opportunities—not to mention long weekends in the Loire valley—dance through your head. Not least of the attractions, your salary will jump 50%, to $300,000.

There are many good reasons for accepting a foreign assignment, but the financial consideration is not one of them. Given the complexity and lack of equity involved in moving between different countries' tax systems, it's quite possible that a new American expatriate will find himself or herself financially worse off after the big promotion.

Relocating overseas subjects you to the tax systems of at least two nations: your own and that of your new country of residence. Alone among major developed nations, the U.S. maintains that it is entitled to taxes from all its citizens, wherever they live and earn their money. Virtually all other countries, by contrast, tax residents but not citizens living overseas. Taxing on the basis of citizenship rather than residence, says Walter Meisenkothen, a London-based partner of Arthur Andersen & Co., "puts America at a tremendous disadvantage." Further complications arise from the fact that the Reagan tax revolution has not penetrated very deeply into the tax codes of many foreign countries—in other words, most foreign systems have higher rates, as well as far fewer deductions, than the U.S. code does.

Under the U.S. tax code, up to $70,000 a year in wages earned by Americans abroad is tax free. The Internal Revenue Service also allows a partial credit against U.S. taxes for foreign income taxes paid. But these benefits fall far short of relieving taxpayers from all of the tax costs of a foreign transfer. Among the problems expatriates confront:

- Some countries, notably Germany and Canada, will nail you for taxes at very high rates on portfolio income, even if that income is left on deposit in the U.S. Many employers' tax equalization plans—a basic document for any employee considering a foreign posting—promise to make transferees whole for higher foreign taxes. But the tax equalization plans typically won't cover the additional taxes on significant amounts of investment income, warns Samuel Russo, a partner and international tax expert at KPMG Peat Marwick in New York.
- Many corporations promising to make their transferees whole on taxes do it by maintaining a certain level of take-home pay. For this purpose they may assume that if you had stayed home you would have had to pay state and city taxes at the rate in effect in the corporation's headquarters city. If the home office is in New York City, you'll in effect pay phantom local taxes at stiff rates—even if you were living in a low-tax state like Texas before the transfer.
- An employee who dies while abroad may subject his family to a double dose of estate taxes.

As it happens, when it comes to taxing foreign nationals, Britain is one of the world's more civilized nations. Her Majesty does not tax noncitizens on portfolio income unless that in-

come is remitted into the U.K. As for salary income, the U.K.'s top rate of about 40% is one of the lowest outside the U.S., though there are few deductions. The interest on only the first $50,000 of a mortgage, for example, is deductible. (The mortgage interest limitation and the penalties on bringing capital into the U.K.—plus the risk of foreign exchange rate shifts—explain why most American expatriates prefer to rent, not buy, homes in the U.K. Those who do buy borrow as much of the purchase price as possible, in sterling; several banks in London have created a nice specialty in such financings.)

How will you do, financially speaking, if you take the proffered London job? The computations involved in filing your U.S. and U.K. returns are so complex that we'll omit the details and merely suggest that you get one or a few of the good booklets on foreign taxation of U.S. citizens put out by the big accounting firms. KPMG Peat Marwick, for example, puts out a 266-page book, *Taxation of International Executives*, that gives a good overview of the problems you'll have with an overseas transfer. The other big accounting firms also have foreign tax guides for prospective clients.

Here's roughly how your tax picture will look assuming your new salary is $300,000 and you have $100,000 in investment income (and assuming no significant deductions):

Britain will not tax your investment income but will tax your salary, at an effective rate of 37%. Conversely, the foreign tax credit will probably wipe out almost all U.S. tax on the salary. (In this example, the $70,000 exclusion doesn't bring any additional benefit.) But your investment income will be fully taxed in the U.S.

Add it all up, and your combined U.S./U.K. tax bill will come to $139,000, leaving you with take-home income of $261,000. Had you stayed home at your old salary, the taxes on your salary and investment income would have been around $84,000, for take-home income of $216,000. So of your $100,000 raise for moving to London, only $45,000 ends up in your pocket, thanks to the vagaries of foreign taxation. That's a marginal tax rate of 55%.

Against that $45,000 aftertax increase are some very high living expenses. This year the British government added a "poll tax," in effect a per-adult charge for local services. In Chelsea, a good London neighborhood where many Americans choose to live, the poll tax is about $1,300 for a couple. The IRS says this tax can't be credited against U.S. income taxes because it's not an income or a property tax.

Housing is exorbitantly expensive. A typical three-bedroom flat in central London might rent for $2,700 a month, and a suburban London house as spacious and up-to-date as the one you're leaving behind in Florida would cost double that to rent. You may also be leaving behind good public schools, so figure $8,000 a year per child, minimum, for an American-type private school.

These and other extra expenses can, and should, be worked out with your employer in advance. But in doing so, remember that the tax collector usually construes company-paid housing and education as income for the foreign employee.

What if you sell your Florida house for a $150,000 capital gain? Because you are overseas, the IRS will allow you four years to roll over the gain to a new home. (If you don't buy another home within the four years, you file an amended return for the year you sold the old one, and pay extra tax and a lot of interest.)

As for your investment portfolio, you are well advised to bring none of the interest and dividend income into the U.K., lest it be subjected to Britain's harsher 40% tax rate. As our example above assumes, interest and dividends will be taxed in the U.S. at the usual rates.

Stock options? The tax treatment of U.S. expatriates who exercise their options while abroad is too complicated to even consider here. Suffice it to say that there is a real danger of double taxation in some countries.

When you pick up a London newspaper you will discover whole finance sections full of ads for alluringly exotic instruments: Personal Equity Plans, Far Eastern investment trusts, tax-subsidized savings schemes. Even a British bank deposit, at 15%, might look pretty good. Be wary. Chances are that many of the instruments won't look so good after the combined effects of U.K. taxes, U.S. taxes and exchange-rate swings are considered. Some kinds of foreign investment funds trigger complex U.S. rules governing passive foreign investment companies. The profit on the fund might not pay the higher bill you'll get from your tax accountant to wade through the mess.

It's easy enough to park a deposit in a Channel Islands bank in a sterling account and earn 15% interest; and even after 28% U.S. tax, the return might still look a lot better than U.S. CD rates of around 8%. (The interest, again, would be taxable in the U.K. only if remitted to the U.K.) But remember: Sterling interest rates are high for good economic reason. The sterling inflation rate is creeping near the 10% mark this year, and the value of the currency has been sliding steadily in recent years against stronger European currencies like the German mark or French franc.

A few years from now you will face even more complicated questions if you stay in Britain. Eventually your residency status in the U.K. will change and the U.K. will start to tax some or all of the interest and dividends you earn outside Britain. After five years you and your employer will probably stop paying U.S. Social Security tax and pay the U.K. equivalent instead.

The potential financial headaches involved in an overseas move are endless. How will state and local taxes affect the picture? Who's to pay for moving expenses, home visits, uninsured medical expenses—and enough accountants' time to minimize the tax bite on it all? No doubt about it, a foreign assignment has many things to recommend it. Finances are not one of them. ■

Big bites abroad

Few foreign governments shared the U.S.' enthusiasm for cutting tax rates during the Eighties, as this table shows.

Country	Maximum tax rate	For income above[1]
Belgium	55%	865,600
France	57	84,400[2]
Germany	53	142,800[2]
Hong Kong	15	0
Japan	65	133,600[3]
Netherlands	60	44,500
United Kingdom	40	36,700

[1]Tax bracket thresholds converted to dollars at May 25 rates. [2]Married taxpayer. [3]Includes local inhabitants' tax.

Source: KPMG Peat Marwick.

The Third World is hot and Eastern Europe is hot. But what is the best way to get in? It's foolish to pay a premium to get in when there are discount entrances.

How to buy the Third World

By Marcia Berss

DO YOU WANT to buy a piece of Thailand's rapidly expanding economy? Wall Street is happy to oblige. It will serve up the Thai Fund, a hot item on the New York Stock Exchange recently trading at a 10% premium to the value of the stocks in it.

If you want Thai stocks a lot cheaper, however, you will pass up that fund and go to London. There the Thai Euro Fund is available at a 20% discount to its net asset value.

There are other discrepancies like this one. The Chile Fund goes for a 7% premium on the NYSE, while the GT Chile Growth Fund languishes at a 17% discount in London. Half a dozen other closed-end Third World funds trade at smaller premiums, or fatter discounts, in other markets than they do in New York. What gives? Evidently U.S. investors who think they are international sophisticates have failed to make the most elementary inspection of international markets.

Wall Street has always had this in common with Seventh Avenue: It is intensely responsive to fads. Mutual funds investing in emerging economies are hitting the U.S. stock market as fast as socialist governments are falling. The latest arrival: Merrill Lynch's Thai Capital Fund, on May 22. There are at least four new funds dangling riches from Eastern Europe and sporting names like New Europe Fund and Future Germany Fund. Also, in the last year the pool of developing country funds almost doubled, as U.S. investors plunked dollars into backwaters like Turkey, Indonesia and the Philippines. You don't need to be a cynic about the brokerage industry to predict that a Czech Fund and a Poland Fund are around the corner.

Next to all the newcomers in this line of work, David Fisher, 50, is a grizzled veteran. As president of Capital Group International, a Los Angeles-based part of $50 billion (assets) Capital Group, Fisher was hired in 1986 by World Bank subsidiary International Finance Corp. to invest money in Third World stock markets. Fisher had great trouble getting his first $50 million (all from institutions) for the project, but the accounts are pouring in now. His core Emerging Markets Growth Fund, now accounting for $500 million of the $900 million his group manages, has had a compound annual total return of about 40% since startup.

With those results, Fisher can't help being a bull. "I am a believer that, when viewed in total, Third World countries will grow faster than the rest of the world," he says. "They are an attractive value." But he says individuals should resist the impulse to buy single country closed-end funds, the usual means of entry, especially when the funds are trading at fat premiums to their net asset values. Fisher explains: "If you have a fund

Chuck Potter

Capital Group International's David Fisher
"What do you do when you don't like Thailand?"

What do they know that you don't?

Thanks to America's infatuation with foreign investing, single country closed-end funds listed in the U.S. almost invariably trade at a higher premium or a lower discount than comparable funds listed overseas.

Fund/where traded	Assets[1] ($mil)	Date started	% premium (+) or discount (–) to net asset value[2]	Fund/where traded	Assets[1] ($mil)	Date started	% premium (+) or discount (–) to net asset value[2]
Chile/NYSE	392.3	Oct 1989	6.8%	GT Chile Growth/London	$100.0	Feb 1990	–17.2%
India Growth/NYSE	63.7	Aug 1988	14.0	India/London	335.7	July 1986	9.6
Indonesia/NYSE	64.0	Mar 1990	13.5	Jakarta/London	23.4	Aug 1989	–10.0
Korea/NYSE	364.0	Aug 1984	18.0	Korea Growth Trust/Hong Kong	120.6	Mar 1985	4.3
Malaysia/NYSE	101.9	May 1987	14.0	Malacca/London	58.8	Jan 1989	0.3
First Philippine/NYSE	100.6	Nov 1989	–17.6	Manila/London	46.0	Oct 1989	–29.7
Portugal/NYSE	69.4	Nov 1989	–4.7	Oporto Growth/London	33.2	May 1988	–10.1
Taiwan/NYSE	99.3	Dec 1986	–19.7	Taipei/London	83.2	May 1986	–1.9
Thai/NYSE	177.7	Feb 1988	10.0	Thai Euro/London	152.3	May 1988	–19.9

[1]As of 3/31/90. [2] As of 4/30/90.

Sources: International Finance Corp.; Lipper Analytical Securities Corp.

investing in Thailand, you don't have much flexibility. The environment in which you decide you no longer like Thailand is probably the environment in which the fund is selling at a significant discount. The environment where you really like Thailand is when it sells at a premium. That's been the history of closed-end funds. So I've always had a preference for diversification."

Significantly, so does the doyen of international investing, John Templeton. His Templeton Emerging Markets Fund (available on the Big Board at an 11% discount) is the only diversified Third World fund available to the general public, with holdings in Asia, Latin America and the Middle East. There are regional funds investing in Asia and a soon-to-be-public Latin America fund. Building diversification by investing in each country fund is an option, but Fisher thinks few investors will use that route: "They'd say, 'I'll do Malaysia and India. But Brazil? I just read how terrible it is.' Yet where the news is most negative may be the most attractive."

While Fisher warns against investing in single country funds, he does have strong national biases. Thailand is his favorite, nearly 30% of his Emerging Markets Growth Fund, with big holdings in blue chips like Siam Cement. "Miracle is too strong a word, but what you've seen in Thailand is rapid economic development that's come from government policies, an available work force that shifted from agriculture to manufacturing, and significant foreign investment that wanted to take advantage of that low-cost labor. All that came together to produce way above average growth," Fisher explains.

Malaysia, his second-largest holding (16%), has similar characteristics. Currency swings are not a problem in these countries, since many Asia-Pacific currencies are tied to the dollar. Malaysia's accounting standards are at internationally accepted levels. Indeed, Thai cement companies write off their machinery in three years, which is significantly more conservative than U.S. accounting.

Latin American stocks compose a fourth of Fisher's holdings. Says he: "There obviously is a contrast between emerging markets in the Pacific and Latin America. All you have to do is look at economic statistics, starting with inflation rates. But what's striking is how Chile and Mexico are providing a model for how one deals with problems. New governments in Argentina and Brazil will develop policies with an eye on what worked in Mexico and Chile."

What's good about Mexico? Says Fisher, "It can do for the U.S. what Thailand and Malaysia did for the Japanese, supplying low-cost labor. That would be good for Mexico and good for the U.S. It's hard for the politicians to talk about this, but the direction is pretty sure."

And what about hyperinflation? Says Fisher: "Just because there's high inflation and a jittery currency doesn't mean there won't be a good stock market. Usually in high inflation you don't want to hold cash because you know that's going to lose value. One thing that holds value is a business that adjusts to the inflation environment." Somehow those companies in Mexico survived the inflation that totaled 132% in 1987. Since then, inflation has come down to 18% and the Mexico Fund has done very well on the NYSE: up from 5 two years ago to a recent 14%.

What about Eastern Europe? There, predicts Fisher, "the first opportunities will be largely, though not exclusively, in [Western] European companies that provide things needed in Eastern Europe. That's primarily in three areas: infrastructure companies like cement, engineering and construction; telecommunications companies, both telephone systems and equipment; and basic consumer products companies which will, as incomes increase, sell into markets not available to them previously."

In parts of the world less developed than Eastern Europe, Fisher also favors such companies; cement and telephone outfits are six of his top ten. He concludes: "I first went to the Philippine stock exchange in the early 1970s. You would have looked at it and said, 'I can't believe you'd make investment decisions here the way you would in other places.' Yet the reality is, you do. The fundamentals are the same in most countries." ■

If you live in a state that looks harshly on so-called unearned income, Treasury bonds may be very attractive indeed.

The states are hungry

By Katarzyna Wandycz

HERE'S A ZINGER from Taxachusetts, whose economy is falling apart and whose government can't balance its budget. If you live in Boston and put money in an out-of-state bank account, your state income tax on the interest is 10%. If you deposit the money locally, your tax rate is only 5%.

A lawyer could make a federal case out of this discrimination against interstate commerce. But why bother? A better response is to buy neither a local nor an out-of-state certificate of deposit. Instead, buy a U.S. Treasury note. Its interest is exempt from Massachusetts tax.

When you invest, don't overlook the effect of state taxes. To be sure, the effective cost of state income taxes is reduced by the fact that they can be deducted on your federal return. But they are still a nasty surprise for many successful investors.

Consider Connecticut, which leads the pack in penalizing investors. Connecticut exempts salaries from its income tax, but the top tax rate on interest and dividends is a draconian 14%, and the flat rate on capital gains recently has been more than doubled, to 7%. You can escape the interest tax by putting your money in Treasurys. (Capital gains from Treasurys are not exempt, however.)

New York, unlike Connecticut, taxes salaries as well as "unearned" income, but its top rate is a bit lower. With the additional city income tax thrown in, the maximum tax bracket for a New York City resident is 11.3%. That marginal rate would hit a married couple whose total taxable income is above $108,000. Also, Mayor Dinkins is proposing to surcharge such "wealthy" people.

State taxes are looming larger than ever before in investment planning, in part because the states are reluctant to cut spending and are scrounging for new ways to tax. The 1986 federal tax act reduced the top marginal rate from 50% to 28% for the richest taxpayers, which also has the effect of making state taxes more painful, since the advantage of deducting them on your federal return is less. A few years ago Connecticut's wealthiest investors were looking at an effective Connecticut rate of 6%: a 12% state rate offset by the advantage of deducting state taxes on the federal return, where the marginal rate was 50%. Now that

Danger spots for investors

Connecticut takes the dubious honor of having the highest income tax bracket in the nation. Its tax rate of 14% on dividends and interest applies when a taxpayer's adjusted gross income from all sources is over $100,000. Here's a rundown on how the states treat investment income. Rates are for joint returns.

State	Top 1990 tax rate on interest & dividends	Top 1990 tax rate on long-term capital gains
Alabama[1]	5% above $6,000	same
Alaska	none	none
Arizona[1]	8% above $15,480	same
Arkansas	7% above $25,000	same
California	9.3% over $52,850	same[2]
Colorado	5% flat rate	same
Connecticut[3]	14% above $100,000[4,23]	7% flat rate above $200
Delaware	7.7% above $40,000[23]	same
D.C.	9.5% above $20,000	same
Florida	none	none
Georgia	6% above $10,000	same
Hawaii	10% over $41,000	7.25% above $7,000[12]
Idaho	8.2% over $40,000	same[5]
Illinois	3% flat rate	same
Indiana	3.4% flat rate	same
Iowa[1]	9.98% above $46,710	same[6]
Kansas	5.15% above $35,000	same
Kentucky[13]	6% above $8,000	same
Louisiana[1]	6% above $100,000	same
Maine	8.5% above $32,000	same

same Connecticut resident is looking at an effective rate of just over 10%. That's a pretty hefty boost.

Here's another worry. If you have too many special deductions and "preferences" on your federal return, you wind up paying not the regular tax but the alternative minimum tax. In that case you get no current benefit from deducting state taxes. This happens to a lot of wealthy investors.

What should you do if you live in a high-tax state? First, don't buy certificates of deposit, corporate bonds or foreign bonds, except in a tax-sheltered account such as an IRA. Use either Treasurys or local municipal bonds for your fixed-income investing. Second, for your equity investments, put a preference on low-dividend growth stocks. Hold on to winners for as long as you can. If you are fortunate, you can hold off realizing the gains until you have retired and moved to a low-tax state. Third, for your liquid assets, use a Treasury-only fund or a tax-free money market that buys local paper.

Or you could move. The best states for investors are those that don't tax interest, dividends and capital gains at all. On this honor roll are Alaska, Nevada, South Dakota, Texas, Washington and Wyoming. None of these states taxes "earned" income, either. Florida has no personal income tax but levies an annual 0.1% wealth tax on portfolios above $20,000. A simple millionaire pays $1,000 a year—pretty reasonable compared with states with income taxes.

The table lists other variations in the tax rate game. New Hampshire and Tennessee, for example, do not tax capital gains but do tax interest and dividends. Maryland taxes capital gains at slightly more than half its regular income tax rates, while Wisconsin taxes them at slightly less than half. Iowa now gives a 45% exclusion on the first $17,500 of capital gains for most investors, while Idaho's capital gains tax favors in-state timber, farming and manufacturing.

States also vary in what they define as taxable income. Many states use either federal taxable income or adjusted gross income as a starting point, but a few, including Pennsylvania and New Jersey, use gross income. If you live in New Jersey and earn $100,000 from your portfolio while losing $100,000 on your dental practice, you will pay no federal tax, but you will owe Governor Florio $2,900.

Danger spots for investors

State	Top 1990 tax rate on interest & dividends	Top 1990 tax rate on long-term capital gains
Maryland	5% above $3,000	3% above $3,000[7]
Massachusetts[8]	10% flat rate[9]	5% flat rate[10]
Michigan	4.6% flat rate	same
Minnesota	8.5% above $75,500[11,23]	same
Mississippi	5% above $10,000[23]	same
Missouri[1]	6% above $9,000	same
Montana[1]	11.5% above $52,500[14,15]	same[16]
Nebraska	6.41% above $45,000	same
Nevada	none	none
New Hampshire[3]	5% flat rate[17,24]	none
New Jersey	3.5% above $50,000	same
New Mexico	8.5% above $64,000	same
New York	7.875% above $26,000	same
North Carolina	7% above $21,500	same
North Dakota[18]	12% above $50,000[23]	same
Ohio	6.9% above $100,000	same
Oklahoma[1]	10% above $24,000[19]	same
Oregon[20]	9% above $10,000	same
Pennsylvania	2.1% flat rate[23]	same
Rhode Island	22.96% of federal tax liability	same
South Carolina	7% above $10,000	same[21]
South Dakota	none	none
Tennessee[5]	6% flat rate[23]	none
Texas	none	none
Utah	7.2% above $7,500	same
Vermont	28% of federal tax liability	same
Virginia	5.75% above $17,000	same
Washington	none	none
West Virginia	6.5% above $60,000	same
Wisconsin	6.93 above $20,000	2.77% above $20,000[22]
Wyoming	none	none

[1]State allows deduction for federal taxes, which usually helps lower effective rates. [2]State allows credit equal to 4.5% of gain from sale of in-state rental, residential or farm property. [3]State has no tax on earned income. [4]Applies to returns where federal adjusted gross income exceeds $100,000. [5]State allows a 60% deduction on some real estate, business assets and livestock. [6]State allows a 45% deduction on the first $17,500 of income from the sale of certain actively managed business property. [7]Effective rate after allowing a 40% exclusion of capital gains. [8]Rates on interest and dividends are higher than those on earned income. [9]Interest on in-state savings accounts taxed at 5%. [10]Effective rate after a 50% exclusion. [11]Rate lowers to 8% at $165,000. [12]If an individual's income including the capital gain is taxed at a rate in excess of 7.25%, the capital gain is taxed at only 7.25%. [13]State allows only a deduction of federal tax liability paid prior to 1990. The deduction will be eliminated in 1991. [14]Including a 5% surtax. [15]Married filing jointly older than 65 can exclude up to $1,600 of interest income. [16]Allows a 40% exclusion for installment sale contracts that occurred before January 1987. [17]$1,200 of interest and dividend income exempt for individuals; $2,400 if filing jointly. [18]Taxpayers may elect an alternative method of paying 14% of federal tax liability. [19]Without the federal deduction the top rate is 7% above $21,000 for married filing jointly. [20]Federal deduction limited to $3,000 on a joint or single return; married filing separately can deduct up to $1,500. [21]6% on capital gains held two or more years. [22]After giving effect to a 60% exclusion [23]State taxes interest income from U.S. Treasurys held in government bond funds. [24]Exemptions include interest from New Hampshire and Vermont banks and credit unions.

Vermont and Rhode Island piggyback their taxes on your federal return: Your state tax is simply a percentage of your federal tax bill. North Dakota allows its taxpayers to pay either regular state rates—up to 12% on investment income—or a piggybacked 14% of their federal tax liability. The piggyback rules have special adjustments to exempt interest on U.S. Treasurys from state tax.

Several states allow residents to deduct federal taxes from state returns in a way that helps lower effective rates on investment income. In some states, taxes sometimes can be minimized by putting income-yielding investments in the name of the lower-salaried spouse. Arkansas, for instance, has a top rate of 7%, starting at $25,000 for both married-joint returns and married-separate. "They file separately unless they are not too bright," says Timothy Leathers, Arkansas commissioner of revenue.

Pay attention to how your state treats municipal bond interest. Most of them tax munis from out of state and exempt munis from within the state. In the District of Columbia and New Mexico, all municipal bonds are exempt from state taxes. Illinois, Iowa, Kansas, Utah and Wisconsin exempt some and tax others. New York allows you to escape state taxes on local private-purpose muni bonds, even though they are sometimes federally taxable. Most states allow the source of muni interest (local or not) to flow through a mutual fund to you. All but seven states allow the exemption for Treasury interest to flow through a fund.

Remember, too, that some investments are full of pitfalls, no matter where you live. If you invest in a partnership or even a publicly traded master limited partnership, you may have to file and pay taxes in every state where the partnership does a certain amount of business. "The administrative pain of filing zillions of returns may outweigh the economic advantages," advises Price Waterhouse tax expert John Fielding.

Fielding recalls a Connecticut resident who owned shares in a partnership that sold assets in New York City. The shareholder was surprised to discover that he owed both New York and Connecticut capital gains tax, and that neither state would give him credit for the tax he paid to the other state. As if life weren't already difficult enough for the investor. ■

Fed up with your state's high taxes, you retire to Florida. Now your former home state announces that it can tax you for the rest of your life. Outrageous? Sure. Here's what you can do about it.

The pension snatchers

By Janet Novack

CALIFORNIA'S POLITICIANS have come up with an ingenious way to raise revenues without risking a revolt by the voters. They levy taxes on people who can't vote, namely, out-of-staters.

The out-of-state victims are retirees, those who used to work in California but fled the state and its steep income tax rates. California's position: If you earned your pension in this state, then you owe us taxes when you collect it, no matter where you live.

New York puts the arm on departing retirees by taxing lump-sum pension distributions earned while working in New York. Nine states tax IRAs held by former residents. Several states are going after deferred compensation paid to ex-residents.

If you are nearing retirement, and particularly if you plan to retire from a high-tax state to Florida, which has no income tax, keep an eye on what your former home is doing to tax ex-residents. There are ways to minimize the damage.

How far can a state's taxing power reach? In 1920 the Supreme Court ruled that states can tax nonresidents on income earned within their borders. Example: You work in Massachusetts, live in New Hampshire. Massachusetts takes income tax out of your pay.

Investors come across this taxing power if they own partnership interests. Example: You live in Texas but own a piece of a New York City real estate deal. The New York partnership sells its building at a gain and you receive a letter a few years later from New York assessing you for capital gains taxes. (New York sends out more than 2,000 such letters a year.)

How about interest and dividends from companies within a state that are paid to out-of-staters? In the vast majority of cases, states can't constitutionally tax these payments. Anyway, it would be futile to go after them. If New York tried to tax a Texan on his CD at Manufacturers Hanover, he would withdraw the money fast.

Taxing a nonresident on pension income is another matter. The hapless victim cannot move his pension "source." Hence, the greedier states demand a piece of retirement income from former residents. Traditionally, these taxes often haven't been paid. Many retirees don't know they owe them. Others, says Ernst & Young tax expert Louis Jacobson, "take the attitude, 'Let them come and get me.' But they're being very silly."

Why? Because powerful computers and information-sharing agreements are helping the states grab more out-of-state money. Some states are even making preemptive enforcement strikes. In January, Minnesota began requiring partnerships to withhold 8% from payments to nonresidents.

California, for its part, is considering requiring its employers to report pension payments to nonresidents. The state figures it gets only 30% of the pension taxes owed by out-of-staters. It already goes after retirees it knows about: mostly former state workers. The state turns up about 18,000 nonresidents a year who it

Few investment letters have beaten the market lately. Are they a waste of money? Well, mutual funds lagged the market, too.

Blame the environment

By Mark Hulbert

BEATING THE MARKET is never easy, but the last five years have been particularly rough for investment newsletter writers. Just 7 of the 56 investment newsletters tracked by *Hulbert Financial Digest* beat the Vanguard Index Fund over the period from Mar. 31, 1985 to Mar. 31, 1990. With the other 49, you would have done better canceling your subscription, buying the market-tracking Vanguard Index 500 fund, and holding for five years.

But while the past is prologue to the future, it does not predict the future. In my admittedly prejudiced view, it is too early to write off the investment letters. The same factors that have hurt many other kinds of investment advisers have penalized the newsletter writers recently.

An indication of how difficult these five years were is that mutual funds did even worse than the newsletters.

For this comparison, let us consider the 110 individual portfolios recommended by the 56 newsletters in my database. Among those 110 portfolios, 29, or 26%, beat the Vanguard Index Fund. In contrast, just 85 (or 16%) of the 541 stock funds in the FORBES-CDA database beat the index fund. (Mutual fund managers might object to my allowing multiportfolio newsletters more than one shot at beating the market, but let's not forget that fund sponsors have been playing the multiportfolio game for years.)

To calculate a newsletter's performance, my computer program makes assumptions that are as realistic as possible. Purchases and sales are made at the prices prevailing when any subscriber could have acted on the newsletter's advice, and a 1% commission is charged each time a stock is bought or sold (2% round-trip). I don't debit any amount for taxes. (Neither does FORBES in reporting fund performances.) Nor do I reduce a newsletter's return by its subscription price. FORBES doesn't debit a fund's return by its sales load.

There are two reasons for the letters' difficulties in the past half decade. One is the strong upward drift in the market, 17% a year over the five years. That hurts the many letters with substantial cash positions in their recommended portfolios. The other reason is that small stocks, the special province of letter writers, have been trounced by the blue chips.

You can't say exactly when, but you can be reasonably sure that both of these environmental factors will reverse themselves someday. The market is not going to continue marching upward indefinitely at a 17% annual rate; there just aren't that many gains in the economy to be had. Within the next decade we will get a year or two of market declines, and when they do, the relatively cash-heavy newsletters will look good. As for the small-cap stocks, they have a decided superiority to big stocks over the long pull, but do worse over cycles lasting up to a decade or so. The down cycles in the relative performance of small-caps do not last forever.

In contrast to big brokers and most mutual funds, which rarely can afford to bother with little stocks, many newsletters actually specialize in such stocks. In previous market cycles this specialization has worked to newsletters' benefit, but not during these five years. Consider the perfor-

mance of the Wilshire 4500 Index. It is a capitalization-weighted index of all regularly traded stocks in the U.S., other than those in the S&P 500. In contrast to the market's 17% annual return over these five years, the Wilshire 4500's was just 12%. Against the Wilshire 4500, the newsletters don't look quite so bad: 19 out of 56 beat the bogey.

The other big reason that newsletters lagged is their relatively high cash position—which works against them when the market is as bullish as it was over this period. Indeed, the newsletters I monitor averaged a 46% cash position in the 1980s, against a stock-fund average of around 8%.

Both of these factors—a predisposition in favor of smaller stocks and more cash—will work to newsletters' benefit in other kinds of markets. The cash will help them beat the market in bear years. And if and when the historical pattern of secondary stocks outperforming blue chips reasserts itself, a larger number of newsletters will beat the S&P 500. This assumes, of course, that the newsletters do not forsake small stocks just when small stocks are about to rebound.

So how should you go about choosing an investment newsletter? Needless to say, performance is the most important criterion. And while there is no guarantee that past will equal future performance, you can increase the odds that it will by focusing on performance over a long period. How long? Five years is pretty good, and a longer period would be even better. The problem is that as we start comparing performance over longer and longer periods, fewer and fewer newsletters qualify—either because they haven't been published for that long or they have changed editors during the period. Fund evaluators face the same dilemma.

But performance isn't the only criterion. You also must look at how much risk the newsletter has incurred. If you are a conservative investor, for example, there is no point in even contemplating following a high-risk options newsletter, no matter how impressive its return. In addition, you should examine a newsletter's style: Does it require daily attention, such as the frequent calling of telephone hotline updates? If so, and you don't have that much time to give, then you should focus instead on newsletters that don't require as much attention.

Interestingly, transaction costs do not explain why so few newsletters beat the market since 1985. One of the newsletters with the busiest trading habits, the *Zweig Forecast*, is also one of the select few that beat the market. And this is after taking out a hefty bite for commissions. Zweig's portfolio over these five years would have averaged a 23% annual return if no transaction costs had been debited, instead of 20%, assuming a 2% round-trip commission. Even if you assume that Zweig's competitors traded as much and would have been helped as much by not paying commissions—and most traded far less—you still find that only 12 of 56 letters would have beaten the market in a commission-free world.

So, too, for funds. There is no correlation between performance and turnover. The average turnover ratio of the 85 funds that bettered the Vanguard Index 500 Fund is indistinguishable from the turnover of the funds that did worse.

Don't interpret these results to mean that transaction costs and turnover ratios aren't important, however. Instead, I conclude from this that five years is not a sufficiently long period of time for the drag produced by high transaction costs to become dominant. Over periods as short as five years, other factors—such as those I already have identified—are more important determinants of performance.

In the meantime, however, we do know two important things. One, it's extremely difficult to beat the market. Two, it can be done. With this in mind, let's look at the seven newsletters that did beat the index fund average from 1985 through 1989. They amply prove that there is no one road to investment riches. Sidestepping the 1987 crash obviously helped. That explains the excellent performance of Martin Zweig's *Zweig Forecast* and that of my fellow FORBES columnist Michael Gianturco's *Princeton Portfolios*. Both Zweig and Gianturco were net short going into Black Monday.

But being out of the market on that day wasn't a necessary—or sufficient—condition for beating the market over the entire five years. Charles Hooper's *Mutual Fund Strategist* was fully invested during the 1987 crash yet still did well over the five-year period. And Richard Fabian's *Telephone Switch Newsletter*, which was out of stocks during the crash, did worse than the market over the five years.

In fact, stock selection rather than market timing was the road to success for the high ranks of the top two newsletters, Louis Navellier's *MPT Review* and James Collins' *OTC Insight*, since they don't even try to time the market. (These two, almost tied for first place, used to be partners and have had their separate newsletters for only half of these five years. I credit each with the same record for the first half.) Stock selection is also responsible for the high rank of the other Zweig newsletter, the *Zweig Performance Ratings Report*, though its relative weighting of long and short positions will change, which is market timing of a sort.

The moral of my story is simply this: There is considerable talent in the newsletter field. That newsletters as a group failed to beat the market is no more reason for writing them off than that the average mutual fund also failed to beat the market over this exceptional period is reason for burying mutual funds. ■

The best investment letters

Few beat an S&P 500 index fund since 1985. They look better against a Wilshire index of small stocks.

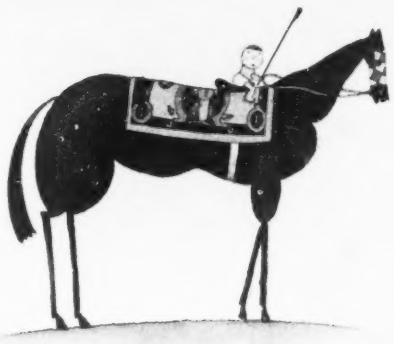
Newsletter[1]	5-year return (annualized)	Risk rating[2]
MPT Review (average)[3]	32.8%	high
OTC Insight (average)[3]	30.6	high
California Technology Stock Letter	21.3	average
The Mutual Fund Strategist (average)	20.5	very low
Zweig Forecast	20.4	low
The Princeton Portfolios (average)	19.7	high
Zweig Performance Ratings Report	17.6	very low
Vanguard Index 500 Fund	17.1	average
Wilshire 4500 Total Return Index	12.4	average

[1]Return of multiportfolio newsletters based on an average of their several portfolios. [2]Risk rating based on volatility of portfolio returns; the 10% most volatile are rated "very high," the next 20% "high," the next 30% "average," the next 20% "low," and the remainder "very low." [3]Tied for first place.

Source: Hulbert Financial Digest.

Mark Hulbert is a FORBES columnist (see p. 294).

The best new issues do spectacularly well. The average new issue does poorly. It's the averages that count in investing.



Long shots and small returns

By Steven Ramos and Steve Kichen

THIS COULD BE the next Home Depot!" says your broker, in trying to sell you on an initial public offering. A $10,000 investment in Home Depot when it came to market in 1981 is worth $740,000 today. Such spectacular returns stick in the memory and make a great selling tool for stockbrokers. But don't be swayed by such tales. What counts in investing is not the extreme cases but the averages. And the averages are very bad in the new-issues market.

We reviewed the performance of 1,993 companies that went public betweeen Jan. 1, 1980 and May 15, 1990. Of these, 1,421, or 71%, did worse than the overall market, as measured by the S&P 500. The average performance, relative to the market, was –19%. That means that the underwriters could have cut all their offering prices by 19%, and the buyers still would have had no great deal—just a means of tying the market and incurring an inordinate amount of risk in the process.

To get an idea of the risks, consider these statistics. More than half of the new issues are now worth less than the offer price. A third are now valued at less than half of their offer price, and 123 of the 1,993 went bankrupt.

And our performance statistics are too kind to new issues. First, we have ignored dividends, which are much higher for established companies than for new issues. Second, we have assumed that an investor could have bought at the new-issue price. In fact, a lot of the more attractive offerings—Genentech, for example—were rationed out to the buyers at the offering price. Investors who weren't owed a favor by their brokers simply had to buy in the secondary market at much higher prices. Finally, we omitted from our survey all stocks offered at

The top-performing new issues

This list of winners in the IPO sweepstakes of the 1980s will make you wistful. If only you had bought Home Depot or Liz Claiborne or King World, you could have made a killing. But don't be swayed by the winners' list. Look at the averages. The average new issue did 19% worse than the market. Those are racetrack odds.

Company/business	Offer price[1]	Recent price	Offer value ($mil)	Offer date	% gain actual	% gain relative to market[2]	Underwriter
Home Depot/home improvement centers	$0.71	$52.63	$7.2	9/22/81	7,313%	2,338%	Bear Stearns
Liz Claiborne/apparel	0.79	28.00	21.9	6/9/81	3,444	1,217	Merrill Lynch
King World Productions/film distribution	1.67	37.38	12.5	12/5/84	2,138	926	PaineWebber
LyphoMed[3]/health care equip	1.58	31.87	20.0	5/13/83	1,917	826	Montgomery Sec
Washington Fed S&L/savings and loan	1.59	28.75	11.1	11/9/82	1,708	632	EF Hutton[4]
Computer Assocs Intl/computer software	0.88	15.50	7.0	12/9/81	1,661	527	Alex Brown & Sons
Adobe Systems/computer software	2.75	46.50	5.5	8/13/86	1,591	1,073	Hambrecht & Quist
LA Gear/footwear	2.88	43.63	19.0	7/1/86	1,415	979	Sutro[5]
AL Williams[3]/insurance	1.60	23.17	8.9	7/7/82	1,348	355	Self
Autodesk/computer-aided design	3.67	49.50	15.4	6/28/85	1,249	631	LF Rothschild[6]

[1]Per common share; adjusted for splits. [2]The percentage by which the ending value of $100 invested in the stock exceeds the ending value of $100 invested in the S&P 500. [3]Acquired. [4]Now Shearson Lehman Hutton. [5]Subsidiary of John Hancock. [6]Subsidiary of Franklin Financial.

Sources: Security Data Co; Wilshire Associates; FORBES.

The biggest offerings

Size doesn't guarantee quality in an initial public offering, nor does the reputation of the lead underwriter. But this list of the large deals would show good performance if you could exclude the thrift issues.

Company/underwriter	Offer value ($mil)	Offer date	% gain actual	% gain rel to market[1]
Consolidated Rail/Goldman Sachs	$1,456	3/26/87	57%	33%
Unum/Goldman Sachs	562	11/5/86	94	35
Reader's Digest Assoc/Goldman Sachs	420	2/14/90	19	11
Meritor Svgs Bank PA/Salomon Brothers	374	9/14/83	–83	–92
Carnival Cruise Lines/Salomon Brothers	366	7/24/87	35	18
Dime Savings Bank NY FSB/Salomon Brothers	346	8/19/86	–56	–69
E-II Holdings[2]/Salomon Brothers	345	7/2/87	14	30
Aristech Chemical[3]/Shearson Lehman	320	11/26/86	128	68
Calfed/EF Hutton[3]	293	3/29/83	–9	–61
Himont[2]/Wertheim Schroder	287	2/12/87	82	83
McCaw Cellular Comm/Drexel Burnham Lambert	283	8/21/87	24	18
Morgan Stanley Group/Morgan Stanley	254	3/21/86	81	19
Glenfed/Dean Witter Reynolds[4]	244	10/5/83	14	–46
Fruit of The Loom/Drexel Burnham Lambert	243	3/3/87	54	24
Bear Stearns Cos/Bear Stearns	215	10/29/85	18	–37

[1]The percentage by which the ending value of $100 invested in the stock market exceeds the ending value of $100 invested in the S&P 500. [2]Acquired. [3]Now Shearson Lehman Hutton. [4]Now part of Sears, Roebuck.

The best and the worst new-issue underwriters

Brokers are ranked by the performance of new stock issues since 1980 that raised at least $5 million and were priced at $5 or more.

Rank	Underwriter	Number of issues	% of issues that went up	% of issues that beat the market	Avg performance actual	Avg performance rel to market[1]
	The best					
1	**Piper Jaffray Hopwood**[2]	26	65%	96%	115.9%	43.7%
2	**Bear Stearns**	57	51	91	148.0	27.3
3	**First Boston**	54	54	93	56.5	16.6
4	**Goldman Sachs**	85	64	94	64.8	10.9
5	**William Blair & Co**	36	58	83	68.5	4.6
6	**Donaldson Lufkin Jenrette**	72	43	93	49.2	1.7
	The worst					
1	**Rotan Mosle**[3]	21	24	86	–48.2	–67.3
2	**Rauscher Pierce Refsnes**	17	29	94	–26.8	–47.4
3	**Bateman Eichler**[4]	18	33	83	–24.5	–47.3
4	**Dain Bosworth**	22	36	91	–2.0	–42.0
5	**Ladenburg Thalman**	25	28	92	1.9	–40.3
6	**Becker Paribas**[5]	24	50	96	27.1	–37.8

[1]The percentage by which the ending value of $100 invested in the stock market exceeds the ending value of $100 invested in the S&P 500. [2]25% owned by Hartford Financial. [3]Subsidiary of PaineWebber. [4]Subsidiary of Kemper Financial. [5]Subsidiary of Merrill Lynch.

Most bankruptcies

Several of these underwriters eventually went under themselves.

Rank	Underwriter	Number of issues	% bankrupt
1	**Muller***	6	83.3
2	**Rooney Pace***	11	36.4
3	**J Muir***	6	33.3
4	**DH Blair**	13	30.8
5	**Howard Weil Labouisse**[1]	9	22.2

*No longer in business. [1]Subsidiary of Legg Mason.

less than $5 a share—penny stocks, for the most part. These are the worst deals for the investor and would have brought down the averages considerably. In our last survey of under-$5 issues (FORBES, *June 26, 1989*), we found an appalling relative performance averaging –51%.

The new-issues market runs hot and cold. In the 12-month period ended Sept. 30, 1987, just prior to the crash, 704 new issues (excluding closed-end funds) were brought to market and $21 billion in new capital was raised. Through all of 1989 only $6 billion in capital was raised from 202 new offerings. This year is not much busier. As of May 30, 82 new issues brought in less than $3 billion in capital for 1990.

But, with the technology sector performing well once again, it's all but inevitable that a flood of technology IPOs will appear. "There are now hundreds of high-technology and computer companies lying in the wings waiting for better market conditions," says Norman Fosback, editor of the *New Issues* newsletter in Fort Lauderdale, Fla.

You should be skeptical of these new issues, as you should of any offerings aimed at capitalizing on yesterday's success story. If you like the technology sector, look for an established but neglected company trading at a low multiple of its earnings or at a low ratio to its book value. The story on page 186 is a place to start.

Our new-issues performance numbers are based on the FORBES IPO database, with recent underwriting data from Securities Data Corp. in Newark, N.J. and pricing data from Wilshire Associates in Santa Monica, Calif. ■

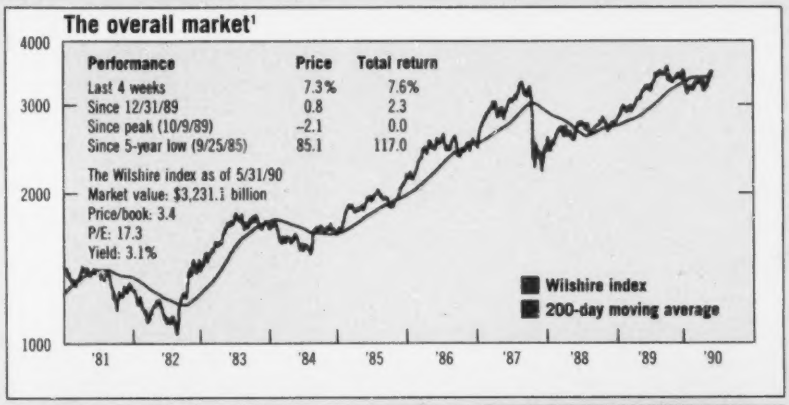
The Forbes Wall Street Review

Edited by Eric S. Hardy

Does the spring rally bode well for stocks in the brokerage business? No, according to Perrin Long, an analyst who follows the securities industry for Lipper Analytical Services in New York. "We're still behind last year in trading volume, and the brokerage stocks as a group underperformed the S&P 400 [essentially the S&P 500 less financial companies and utilities] in May," he says. Long is maintaining his long-standing pessimistic outlook for brokerage stocks, and instead recommends a conservative, even defensive, investment approach over the next 12 to 18 months. He likes companies in industries like food processing (General Mills, for instance) and high-quality electric and telephone utilities.

The 30 stocks in the Dow industrials scaled new peaks and closed the latest two-week period with a 1.6% gain. During May the average rose 8.3%. But the broad market is still below its previous peak. At the end of May the Wilshire index of 6,000 equities had a 1% gain for 1990, which still puts it 2% below the alltime high it set last October. Most of the fireworks in May happened during the first half of the month, when the Dow crossed the 2800 level and kept climbing. For the month of May, average daily volume on the New York Stock Exchange was 164 million shares—the highest since January, and 17% ahead of the previous month.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Edison Bros Stores	48¼	27%	16	727	2.2
Novell	49¼	23	27	11,746	1.8
Sequent Computer Systems	31¾	20	40	3,415	1.5
Comcast	13⅞	19	NM	4,409	1.4
First Financial Management	25½	19	11	1,425	1.3

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Magma Power	27¼	–20%	26	1,038	3.1
Adobe Systems	35⅝	–20	20	11,203	2.1
TCBY Enterprises	18½	–16	17	4,875	1.7
Micron Technology Inds	13½	–16	11	7,542	2.0
Federal Express	46¼	–15	22	5,261	2.4

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,448.48	2.0%
Wilshire index 6,000 stocks, equal weighted	21.87	2.5
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,876.66	1.6
S&P 500 Capitalization weighted cross section, major stocks	361.23	1.9
NYSE Capitalization weighted, all listed common stocks	196.94	1.8
Amex Capitalization weighted total return: stocks, warrants	363.06	2.3
Nasdaq Capitalization weighted, all issues except warrants	458.97	3.0
Amex international market index Capitalization weighted, 50 largest ADRs	315.99	0.5

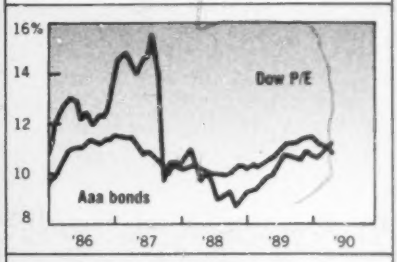
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	923.60	1.3%
Institutional[5] Approximately 200 stocks with high institutional ownership	118.43	2.1
Individual[5] Approximately 200 stocks with low institutional ownership	104.36	1.4
Russell 2000 index 2000 stocks with small market values, capitalization weighted	168.67	2.3
Gold[6] (composite quote of 6 major dealers)	$364.50	–1.4
Yen[6] (per $U.S.)	152.40	0.1
Commodity index[6] (CRB futures index, 1967 = 100)	241.25	–2.0
Oil[6] (W Texas Intermediate)	$17.40	–7.7
T bills[6] (90 days)	7.75%	10 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 5/31/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 5/31/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

What the Analysts Think

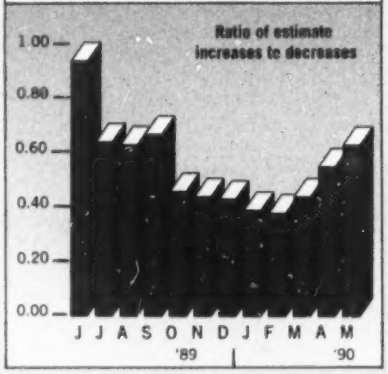
Edited by Steven Ramos

Dow P/E * vs. Aaa bonds †



*Dow P/E is the recent price of the Dow divided by estimated earnings over the next 12 months. †Projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current estimate vs. 3 months ago	Expected year-to-year EPS growth
1989[1]	14.6	NA	–5%
1990	12.9	–3%	12
1991	11.3	–2	16

1990 estimates for major industry groups

Rising estimates	Falling estimates
retail food chains	leisure time
household products	machine tools
tobacco	misc financial
beverages/alcohol	truckers
shoes	money center banks

When the market crashed in 1987, there was much talk about a recession right down the road. The same thing happened after the Dow fell 191 points last Oct. 13. True, there is a recession on Wall Street, but the overall economy is not in a downturn. Analysts are currently expecting 12% earnings growth in the S&P 500 in 1990 and 16% growth for next year. Forecasters are still cutting more earnings estimates than they raise, but the ratio of S&P 500 estimate increases to decreases has climbed for three months in a row *(center chart)*. Analysts are raising earnings estimates for defensive groups such as supermarkets, household products and tobacco stocks.

Rick Pucci, director of the Institutional Brokers Estimate System at New York-based Lynch, Jones & Ryan, is bullish about corporate earnings but less so about interest rates—despite the early June bond rally. "Long-term government bonds are at 8.6%. I think they'll hit 9% before they hit 8%," he says. This means, according to Pucci, the current stock market rally may have gotten ahead of itself. "If interest rates don't come down, the spread between stock multiples and interest rates can be closed through higher corporate earnings or lower stock prices," he says.

Who's Hot

These companies show the greatest increases in estimates over the past three months.[2]

Company/industry	1989 EPS	1990 estimate recent	1990 estimate 3-mo chg	P/E	3-mo price chg	Reason
Golden Nugget/hotels & casinos	–$1.11	$2.35	223%	16	42%	Profits from Mirage Hotel better than expected
Continuum/software	1.27	2.71[3]	158	14	14	Cost controls, gains in computer servicing business
Ocean Drilling & Expl/oilfield services	0.28	0.84	52	29	–13	Increased gas production, reduced exploration expenses
Adolph Coors/brewing	0.36	1.47	46	17	37	Improved sales of Coors Light and Keystone brands
Dime Svgs Bank NY/banking	–2.88	1.76	29	4	–15	Reported strong earnings

Who's Not

These companies show the greatest decreases in estimates over the past three months.[2]

Company/industry	1989 EPS	1990 estimate recent	1990 estimate 3-mo chg	P/E	3-mo price chg	Reason
Ameritrust Corp OH/banking	$3.11	$0.88	–74%	20	–16%	Mounting concerns over asset quality
Delta Woodside/textiles	1.65	0.27	–69	26	–5	Soft textile markets
BayBanks/banking	3.95	1.50	–63	11	–18	Increased loan loss provisions
American Express/financial services	2.70	1.34	–56	22	5	Problems with Shearson subsidiary
Georgia Gulf/chemicals	7.56	2.62	–55	3	–79	Undergoing recapitalization plan

[1]Actual. [2]Companies with market capitalization of $100 million or more. [3]1991 estimate. Earnings projections are Wall Street consensus estimates. Data from over 3,000 security analysts are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan Investment Services, New York. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not available.